

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Fredonia-Moccasin Unified School District No. 6

As of August 27, 2008



Debra K. Davenport
Auditor General

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December 19, 2008

Governing Board
Fredonia-Moccasin Unified School District No. 6
P.O. Box 247
Fredonia, AZ 86022-0247

Members of the Board:

In our November 2007 compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2006. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of August 27, 2008. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2007, audit reports and USFR Compliance Questionnaire. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

Based on the number and nature of the deficiencies noted in our status review, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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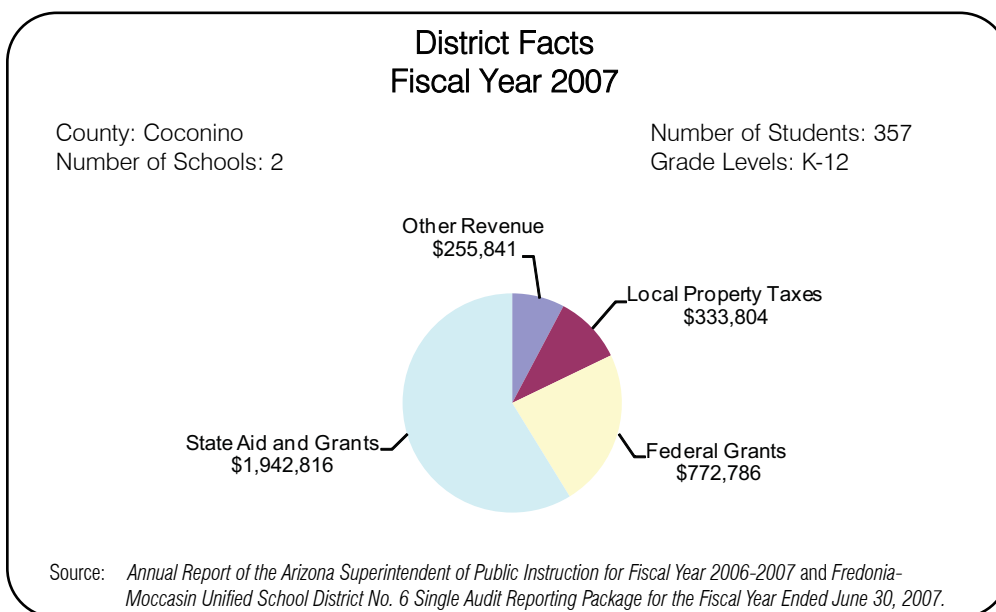
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INTRODUCTION

Fredonia-Moccasin Unified School District No. 6 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$3.3 million it received in fiscal year 2007 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



FINDING 1

The District must strengthen controls over competitive purchasing and expenditures

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. These rules and guidelines are designed to help ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow them. Specifically, the District made purchases from a vendor in excess of the competitive bid threshold even though the

The District did not always follow competitive purchasing requirements and, therefore, could not ensure it received the best value for public monies it spent.

vendor did not respond to the District's invitation for bids. Also, the District received only one response for another invitation for bids and did not maintain a written determination that the price submitted was fair and reasonable, and that either other prospective bidders had reasonable opportunity to respond or there was not adequate time to issue another invitation for bids. In addition, the District did not always obtain at least three oral or written price quotations for the purchases requiring them, and purchase orders were prepared before any quotations were obtained. Further, the District did not retain documentation that due-diligence procedures were performed for purchases made from a purchasing cooperative, and for sole source procurements, there was no documentation of the Governing Board's determination that there was only one source for the purchase.

Additionally, because of the relatively high risk associated with expenditures involving credit cards, school districts should establish and maintain effective internal controls to restrict credit card usage to district business. However, the District did not ensure that employees making purchases were identified on the credit card receipts and did not always obtain credit card receipts to support purchases before the credit card statement was paid. Finally, credit card payments were not always made when due or for the full amount due; as a result, the District incurred finance charges and late fees.

Recommendations

To strengthen controls over competitive purchasing and credit card expenditures, and to comply with School District Procurement Rules and USFR guidelines, the District should perform the following:

- Consider other methods of procurement, such as purchasing cooperatives and intergovernmental agreements, if the District is not able to obtain a sufficient number of bids from vendors for purchases requiring competitive bidding.
- Document the reasons for using a vendor, including a determination that such use is advantageous to the District and the efforts made to comply with competitive purchasing requirements, if the District is unable to satisfy bidding requirements.
- Award a contract to the only responsive bidder only after determining that the price submitted is fair and reasonable, and that either other prospective bidders had reasonable opportunity to respond or there is not adequate time for resolicitation.
- Maintain written documentation of the Governing Board's determination that there is only one source for the required material, service, or construction item for all sole source procurements.
- Perform and document due-diligence procedures on at least a sample of the contracts that the District wishes to use from a purchasing cooperative to ensure that the cooperative contracts were bid according to School District Procurement Rules.
- Obtain oral or written price quotations from at least three vendors for purchases requiring them. If three quotations cannot be obtained, the District should document the vendors contacted and their reason for not providing quotations. Purchase orders should not be prepared until after a vendor is selected using the required purchasing guidelines.
- Obtain and retain adequate supporting documentation for credit card purchases, including signed credit card receipts and itemized vendor receipts that clearly identify the employee making the purchase and the purpose of the charge.
- Compare credit card billing statements to receipts and determine that purchases represent valid district expenditures.
- Ensure credit card payments are made in full and in a timely manner to avoid finance charges and late fees.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

FINDING 2

The District's controls over cash receipts and bank accounts should be improved

Because of the relatively high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash. However, the District did not have strong controls over cash receipts and bank accounts. Specifically, the Maintenance and Operation (M&O) revolving bank account was used for payments other than those requiring an immediate cash outlay. In addition, the District could not locate documentation of the Governing Board's approval of the maximum amount of the M&O revolving bank account and did not always retain receipts to support the account's expenditures. Also, the District did not remit Food Service and Miscellaneous Receipts clearing account monies to the County Treasurer at least monthly, and a check was written from the Miscellaneous Receipts clearing account to pay for a credit card purchase. Additionally, the District did not always prepare cash collection reports to reconcile student activities sales to cash collected. When cash collection reports were prepared, they were not signed by the person receiving the cash and sales were not reconciled to cash collected. Finally, the District did not reconcile its M&O revolving and Student Activities bank accounts in a timely manner, and the employees responsible for performing and reviewing the reconciliations did not initial and date the reconciliations.

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

Recommendations

To improve controls over cash receipts and bank accounts, the District should:

- Document Governing Board authorization for the amount of the M&O revolving bank account, which cannot exceed \$10,000.
- Operate the M&O revolving bank account on an imprest basis and use the account only for activities that require an immediate cash outlay such as postage, freight, travel, and other minor disbursements. Receipts must be maintained to support all expenditures.
- Remit Food Service and Miscellaneous Receipts clearing account monies to the County Treasurer weekly, or at least monthly. No other disbursements may be made from these accounts.

USFR pages VI-C-3 and 4 describe M&O Fund revolving bank account procedures.

- Prepare and retain cash collection reports for student activities monies received to reconcile sales to cash collections. If it is not practical to issue receipts, sell tickets, or count items before and after the sale, such as for bake sales, cash collection reports should be prepared to document cash collected.
- Prepare complete and accurate written bank reconciliations monthly for all bank accounts, retain bank statements and other reconciliation documentation, and ensure that the reconciliation includes the signature or initials of the individual performing the reconciliation and the official who reviewed and approved the reconciliation.

Bank reconciliation procedures are outlined on USFR page VI-C-6.

FINDING 3

The District should accurately record and report its student attendance

The District may not have received the appropriate amount of funding since the District did not correctly record and report membership and absences.

The State of Arizona provides funding to school districts based on membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to help ensure that districts receive the appropriate amount of state aid and local property taxes. However, membership and absences reported to ADE did not agree with the District's attendance records. In addition, the entry date in the District's computerized attendance system did not always agree with the student's entry form, entry dates were not always recorded on the entry form, and the District did not indicate when student entries were entered into its computerized attendance system. Also, student withdrawal forms were not always signed by a district official, and the withdrawal dates were not always properly entered into the computerized attendance system. Further, the District recorded some students as tardy in the attendance system without indicating the time the student arrived to support that a tardy, rather than a partial-day absence, was appropriate, and late arrivals or early departures were not tracked for students at the Moccasin campus. Finally, the District underreported elementary school absences by recording tardies when either a full- or half-day absence would have been appropriate, and the District did not properly calculate partial-day absences for high school students.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Ensure that membership and absences reported to ADE agree with the District's computerized attendance records by having a second employee verify that membership and absences reported to ADE agree with the District's attendance records.
- Require all entry and withdrawal forms to be dated and have a second employee verify that the dates recorded on the forms agree with the dates in the District's computerized attendance records. Record entries and withdrawals in its computerized attendance system within 5 days and document the date it was entered.

- Enter student withdrawals in the District's computerized attendance system properly such that the last day of attendance is counted as a membership day.
- Ensure that all student withdrawal forms are signed by a district official.
- Document the times for all students arriving late or leaving early, and use the times to accurately calculate partial-day absences.
- Record attendance for students enrolled in first through eighth grades, if attendance is based on half days, as follows:
 - Attendance of at least three-quarters of the instructional time scheduled for the day should be counted as a full day of attendance.
 - Attendance for at least one-half, but less than three-quarters, of the instructional time scheduled for the day should be counted as a half day of attendance.
 - Attendance for less than one-half of the instructional time scheduled for the day should be counted as absent for 1 full day.
- Record absences for high school students in accordance with the chart provided in ADE's *Instructions for Required Reports*.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

FINDING 4

The District should maintain accurate capital assets and stewardship lists

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to maintain accurate lists of these assets and to ensure they are accounted for properly. However, the District included items costing less than \$5,000 on its capital assets list, instead of reporting them on its stewardship list, and included groups of

The District did not protect its investments in capital assets since it did not have complete and accurate capital assets and stewardship lists.

items on both the capital assets and stewardship lists that individually did not appear to meet the cost thresholds for inclusion on the lists. Also, equipment items on the capital assets and stewardship lists were not always tagged or otherwise marked with

an identifying number, in the location indicated on the lists, or marked with a tag number that agreed to the tag number on the lists. Further, for items on the District's premises with an apparent cost between \$1,000 and \$5,000, the items were not always tagged or included on the District's stewardship list.

Recommendations

To help ensure the District's assets are adequately accounted for and controlled, the District should prepare and maintain a capital assets list of all assets costing \$5,000 or more with useful lives of 1 year or more and a stewardship list of all equipment items costing between \$1,000 and \$5,000, and include all required information for each item on the lists. Additionally, the District should update the lists annually for items acquired, disposed of, or moved to different locations, and affix a tag with an identifying number to each equipment item costing \$1,000 or more, or specifically identify the asset on the stewardship or capital assets list by some other means, such as a serial number.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe the information that should be recorded on the capital assets and stewardship lists.